

**TOWNSHIP OF LAKE
ROSCOMMON COUNTY, MICHIGAN
GENERAL PURPOSE FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEAR ENDED MARCH 31, 2004**

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Township of Lake	County Roscommon
Audit Date 3/31/04	Opinion Date 6/22/04	Date Accountant Report Submitted to State: 8/20/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	RECEIVED DEPT. OF TREASURY AUG 24 2004 LOCAL AUDIT & FINANCE DIV.		
	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

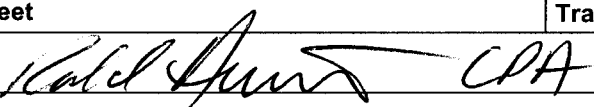
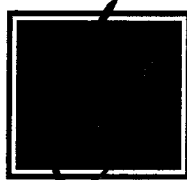
Certified Public Accountant (Firm Name) Harris Group, Certified Public Accountants			
Street Address 1107 E. 8th Street	City Traverse City	State MI	ZIP 49686
Accountant Signature  CPA		Date 8/20/04	

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HARRIS GROUP

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Members of the Township Board
Township of Lake
Roscommon County, Michigan

We have audited the accompanying general purpose financial statements of the Township of Lake, Michigan, as of and for the year then ended March 31, 2004, as listed in the table of contents. These general purpose financial statements are the responsibility of the Township of Lake's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Township of Lake, Michigan, as of March 31, 2004 and the results of its operations and cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Harris Group

June 22, 2004

**TOWNSHIP OF LAKE
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
YEAR ENDED MARCH 31, 2004**

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
ASSETS			
Cash and investments	\$ 202,170	\$ 344,672	\$ 4,626
Receivables:			
Delinquent taxes and assessments	8,797	33,817	
Accounts	12,425		
Due from other governments	7,323		
Due from other funds			
Investment in General Fixed Assets			
Property, plant and equipment, net of accumulated depreciation			
Amount to be provided for the retirement of long-term debt			
TOTAL ASSETS	<u>\$ 230,715</u>	<u>\$ 378,489</u>	<u>\$ 4,626</u>
LIABILITIES & FUND EQUITY			
Liabilities:			
Accounts payable	\$ 903	\$ 3,641	\$
Accrued expenses		6,394	
Due to other funds			
Bonds and notes payable			
TOTAL LIABILITIES	<u>903</u>	<u>10,035</u>	
Fund Equity:			
Investments in general fixed assets			
Contributed capital			
Retained earnings (deficit)			
Fund balance – Undesignated	229,812	368,454	4,626
TOTAL FUND EQUITY	<u>229,812</u>	<u>368,454</u>	<u>4,626</u>
TOTAL LIABILITIES & FUND EQUITY	<u>\$ 230,715</u>	<u>\$ 378,489</u>	<u>\$ 4,626</u>

The accompanying notes are an integral part of these financial statements.

Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Total (Memorandum only)
		General Fixed Assets	General Long-Term Debt	
Sewer	Agency			
\$ 199,568	\$ 929	\$	\$	\$ 751,965
4,773				47,387
69,845				69,845
				12,425
				7,323
		1,284,688		1,284,688
2,580,664				2,580,664
			129,514	129,514
<u>\$ 2,854,850</u>	<u>\$ 929</u>	<u>\$ 1,284,688</u>	<u>\$ 129,514</u>	<u>\$ 4,883,811</u>
\$ 45,472				\$ 49,113
	929			903
			129,514	7,323
				129,514
45,472	929		129,514	186,853
		1,284,688		1,284,688
2,935,877				2,935,877
(126,499)				(126,499)
				602,892
2,809,378		1,284,688		4,696,958
<u>\$ 2,854,850</u>	<u>\$ 929</u>	<u>\$ 1,284,688</u>	<u>\$ 129,514</u>	<u>\$ 4,883,811</u>

TOWNSHIP OF LAKE
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
ALL GOVERNMENTAL FUND TYPES
YEAR ENDED MARCH 31, 2004

	General Fund	Special Revenue Funds	Capital Projects	Total (Memorandum Only)
REVENUES:				
Taxes and assessments	\$ 94,461	\$ 296,394	\$	\$ 390,855
State grants and revenue	96,649	2,103		98,752
Charges for services	7,928	78,120		86,048
Interest	3,120	2,177	61	5,358
Other	2,239	4,955	7,200	14,394
Total revenues	204,397	383,749	7,261	595,407
EXPENDITURES:				
General Government	213,843			213,843
Public Safety:				
Street Lighting		6,110		6,110
Fire		151,314		151,314
Law enforcement		2,103		2,103
Roads		190		190
Trash collection		79,931		79,931
Cemetery		3,523		3,523
Ambulance		107,242		107,242
Other			24,024	24,024
Total expenditures	213,843	350,413	24,024	588,280
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(9,446)	33,336	(16,763)	7,127
OTHER FINANCING SOURCES (USES)				
Transfers in	40,000	29,000		69,000
Transfers out	(29,000)	(40,000)		(69,000)
Total other financing sources (uses)	11,000	(11,000)		
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	1,554	22,336	(16,763)	7,127
FUND BALANCE, beginning	228,258	346,118	21,389	595,765
FUND BALANCE, ending	\$ 229,812	\$ 368,454	\$ 4,626	\$ 603,892

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF LAKE
COMBINED STATEMENT OF REVENUES, EXPENDITURE
AND CHANGES IN FUND BALANCE
GENERAL AND SPECIAL FUNDS
YEAR ENDED MARCH 31, 2004

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:						
Taxes and assessments	\$ 98,668	\$ 94,461	\$ (4,207)	\$ 297,044	\$ 296,394	\$ (650)
State grants	98,850	96,649	(2,201)	2,000	2,103	103
Charges for services	18,125	7,928	(10,197)	79,500	78,120	(1,380)
Interest	6,000	3,120	(2,880)		2,177	2,177
Other	2,500	2,239	(261)		4,955	4,955
TOTAL REVENUES	224,143	204,397	(19,746)	378,544	383,749	5,205
EXPENDITURES:						
General Government	226,475	213,843	12,632			
Public Safety:						
Street Lighting				23,850	6,110	17,740
Fire				146,350	151,314	(4,964)
Law enforcement				2,000	2,103	(103)
Roads				189	190	(1)
Trash collection				76,200	79,931	(3,731)
Cemetery				15,804	3,523	12,281
Ambulance				116,400	107,242	9,158
TOTAL EXPENDITURES	226,475	213,843	12,632	380,793	350,413	30,380
Excess (deficiency) of revenues over (under) expenditures	(2,332)	(9,446)	(7,114)	(2,249)	33,336	35,585
OTHER FINANCING SOURCES						
Transfers in		40,000	40,000	4,000	29,000	25,000
Transfers out		(29,000)	(29,000)		(40,000)	(40,000)
TOTAL OTHER FINANCING SOURCES (USES)		11,000	11,000	4,000	(11,000)	(15,000)
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	<u>\$ (2,332)</u>	<u>1,554</u>	<u>\$ 3,886</u>	<u>\$ 1,751</u>	<u>22,336</u>	<u>\$ 20,585</u>
FUND BALANCE, beginning		<u>228,258</u>			<u>346,118</u>	
FUND BALANCE, ending		<u>\$ 229,812</u>			<u>\$ 368,454</u>	

The accompanying notes are an integral part of these statements.

TOWNSHIP OF LAKE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
RETAINED EARNINGS – ALL PROPRIETARY FUND TYPES
YEAR ENDED MARCH 31, 2004

	<u>Sewer Fund</u>
OPERATING REVENUES:	
Usage fees	\$ 237,238
OPERATING EXPENSES:	
Houghton lake sewer authority shared expense	165,741
Depreciation	<u>56,670</u>
TOTAL OPERATING EXPENSE	<u>222,411</u>
Operating Income	<u>14,827</u>
Non-operating revenue (expense):	
Interest income	914
Interest on bonds	<u>(1,250)</u>
Non-operating (expense) – net	<u>(336)</u>
Net Income	14,491
Depreciation Charged to contributed capital	19,755
Retained Earnings (deficit) – beginning of year	<u>(160,745)</u>
Retained Earnings (deficit) – end of year	<u><u>\$ (126,499)</u></u>

The accompanying notes are an integral part of these financial statements.

**TOWNSHIP OF LAKE
STATEMENT OF CASH FLOWS -
ALL PROPRIETARY FUND TYPES
YEAR ENDED MARCH 31, 2004**

	<u>Sewer Fund</u>
Cash flows from operating activities:	
Operating Income	\$ 14,827
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation	56,670
Increase in receivables	(15,469)
Increase in accounts payable	<u>3,522</u>
Total adjustments to net income	<u>44,723</u>
Net cash provided by operating activities	<u>59,550</u>
Cash flows used by capital and related financing activities:	
Retirement of bonded debt	(25,000)
Interest paid	<u>(1,250)</u>
Net cash used by capital and related financing activities	<u>(26,250)</u>
Cash flows from investing activities:	
Interest earned	<u>914</u>
NET INCREASE IN CASH	34,214
CASH - beginning of year	<u>165,354</u>
CASH - ending of year	<u><u>\$ 199,568</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF LAKE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: ENTITY

The Township of Lake is a general law township of State of Michigan, organized in 1879, located in Roscommon County, Michigan. It operates under an elected board and provides services to its residents in many areas including liquor law enforcement, community enrichment, and human services. The criteria for determining the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special financing relationships. On this basis, the financial statements include all of the governmental functions of the Township of Lake.

Included in the Township of Lake's financial statements are the Township's portion of the activities of the Houghton Lake Sewer Authority, Houghton Lake Building Agency, and Houghton Lake ambulance Service. The Houghton Lake Sewer Authority maintains and operates a sewage system for a tri-township area. The authority is audited and submitted under separate cover. The Houghton Lake Building Agency issues building, mechanical, plumbing and electrical permits and does inspections of the same. The Sewer Authority's activities are recorded in the sewer fund. The Building Agency's activities are recorded in the general fund. See Note 5 for additional information concerning the Houghton Lake Sewer Authority.

The Townships of Lake and Roscommon operate a joint ambulance service (See Note 12). The Township's portion of revenue and expenses are reported in a special revenue fund. Roscommon Township has oversight responsibility.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Township of Lake (Township), Roscommon County, Michigan, conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to government units. The following is a summary of the more significant policies.

Fund Accounting

The accounts of the Township are organized on the basis of the funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements in this report, into three generic fund types and two account groups as follows:

Governmental Funds

General Fund - This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specific purposes.

Capital Project Funds - account for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

**TOWNSHIP OF LAKE
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Proprietary Funds

Enterprise Funds- Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Fiduciary Funds

Agency Funds- Agency funds are used to account for assets held by the Township as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Property tax collections and payroll withholdings are the major activities.

Fixed Assets and Long-Term Liabilities

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. All governmental funds are accounted for on spending or “financial flow” measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of “available spendable resources”. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period.

The two account groups are not “funds”. They are concerned only with the measurement of financial position. They are not involved with measurement of results of operations.

Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the general fixed assets account group, rather than in governmental funds. No depreciation has been provided on general fixed assets. A schedule of changes in general fixed assets is as follows:

	Balance April 1	Additions	Retirements	Balance March 31
Land & Buildings	\$ 335,715	\$ 4,778	\$	\$ 340,493
Vehicles	404,150			404,150
Equip./Furn.	38,400	5,034		43,434
Fire Department	357,098	12,662		369,760
Ambulance	103,902	21,085		124,987
Cemetery	1,864			1,864
TOTAL	\$ 1,241,129	\$ 43,559	\$	\$ 1,284,688

**TOWNSHIP OF LAKE
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Fixed Assets and Long-Term Liabilities - continued

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Infrastructure assets (streets, bridges, sidewalks, etc.) are expensed upon acquisition. Such assets are not recorded in the general fixed asset account group.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation has been provided over the estimated useful lives using the straight-line method.

Sewage system	\$ 4,250,253
Current depreciation	(56,670)
Prior depreciation	<u>(1,612,919)</u>
	<u>\$ 2,580,664</u>

Long-term liabilities expected to be financed from governmental funds are accounted for in the general long-term debt account group, not in the governmental funds.

Fixed Assets and Long-Term Liabilities – continued

Because of their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. They are instead reported as liabilities in the general long-term debt account group. See Note 7 for a schedule of changes in the general long-term debt account group.

Cash and investments

The Township reports its investments in accordance with GASB Statements No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, such as certificates of deposit, and the district intends to hold the investment until maturity.

State statutes authorize the Township to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, saving and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or Nation Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which mature not more than 270 days after the date of purchase. The Township is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

**TOWNSHIP OF LAKE
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Use of Estimates

The financial statements have been prepared in conformity with generally accepted accounting principles as applicable to governments and, as much, include amounts based on informed estimates and judgments of management with consideration given to materiality. Actual results could differ from those estimates.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

Properties are assessed as of December 31, and the related property taxes become a lien on December 1, of the following year. These taxes are due on February 15, with the final collection date of February 28, before they are added to the county delinquent tax rolls. All taxes levied on December 1, 2003, are recorded as revenue in the current year. Unpaid taxes are recorded as receivables of the respective fund. A county revolving fund normally pays the delinquent taxes in late April or early May of each year.

The accrual basis of accounting is used by proprietary funds. The modified accrual basis of accounting is used by all governmental funds and agency funds. Revenue and other sources are recognized in the accounting period in which they become susceptible to accrual; that is when they become both measurable and available to finance expenditures of the fiscal period. Expenditures are recognized when the related liability is incurred. Modifications from the accrual basis are as follows:

- a) Property tax revenues are recognized as follows:

The tax rates for the year ended March 31, 2004 were as follows:

<u>PURPOSE</u>	<u>RATE/ASSESSED VALUATION</u>
General	1.0001
Fire Operating	.9592
Ambulance	.9584
Fire Equipment	.4933
Roads	.4791
Street lights	.2500

- b) Interest on bonded indebtedness and other long-term debt of governmental funds is not recorded as an expenditure until its due date.
- c) Normally, expenditures are not divided between years by the recording of prepaid expenses.
- d) Payments for types of supplies that are inventory are recorded as expenditures at the time of purchase.

TOWNSHIP OF LAKE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3: BUDGET

Each year the Township formulates and adopts a budget as follows:

1. In January or February a preliminary budget is prepared for all funds.
2. A review and an annual budget hearing is held in March.
3. The budget is adopted at a Township board meeting in March or April of each year.

In the body of the financial statements, the Township's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional and activity basis. The approved budgets of the Township for these budgetary funds were adopted on a fund level using the modified accrual basis. Budgets as adopted end on March 31, of each year. There are no carryover budget items. The budget as reported in these financial statements have been amended.

NOTE 4: PENSION PLAN

Pursuant to Act 27 of P.A. 1960 as amended, the Township of Lake adopted a defined contribution pension plan effective April 20, 1977. The name of the plan is the Township of Lake Defined Contribution Pension Plan for Governmental Employees. The plan covers all salaried and full-time hourly rated employees who work at least 1800 hours a year.

The Plan was last amended January 1, 1993, to comply with I.R.S. regulations. The Township contributes annually based on compensation paid over the fiscal year ending March 31. Contributions are computed as follows:

Board Members	15% of compensation
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Employees may also make voluntary contributions up to I.R.S. Code Section 415 limits. The Township's contributions were \$0. Employee eligibility begins on the date of employment. All participants are vested 100%. Normal requirements is age 65 or upon completion of 10 years of service whichever is later. Early retirement is permitted as of age 55.

NOTE 5: HOUGHTON LAKE SEWER AUTHORITY

The Townships of Roscommon, Denton and Lake (Roscommon County) formed the Houghton Lake Sewer Authority in 1973 for the purpose of operating, maintaining, administering and managing a sanitary sewage facility for the benefit of the aforementioned three townships and for any other township municipality which hereafter joins in and becomes a part of such sewer and the related agreement all for the betterment of the health, safety, economy and general welfare of the participating municipalities.

TOWNSHIP OF LAKE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5: HOUGHTON LAKE SEWER AUTHORITY - continued

Pursuant to the formation of the Authority, the Roscommon County Department of Public Works issued \$2,520,000 of bonds, whereupon each Township assumed the responsibility of reimbursing the County for their respective share of the total bonds issued. The portion of these bonds applicable to the Township of Lake is 25.869 percent or \$651,900.

Ownership of the public sanitary sewer system will remain with the Roscommon County Department of Public Works until all outstanding bonds issued by said department of the County of Roscommon (pertaining to the system) have been retired. Thereafter, all portions of the system shall become the property of the respective municipalities. The system is to be operated for the benefit of said participating municipalities both jointly and severally.

The Township extended its sewage system in 1974. Bonds were issued in the amount of \$2,100,000 for this project. The Township levied a special assessment based on a front footage to aid in the payment of the bonded debt. In addition, an annual service charge may be levied to provide for any bonded debt not recoverable by the special assessment.

NOTE 6: LONG-TERM DEBT

The following is a summary of the debt outstanding of the Township as of March 31, 2004:

	<u># OF ISSUES</u>	<u>INTEREST RATE</u>	<u>MATURITY YEAR</u>	<u>PRINCIPAL OUTSTANDING</u>
Note payable - Fire Truck	N/A	6.27	2008	129,514

The annual principal requirements for the years ending March 31, 2004 through 2008 for all debts outstanding as of March 31, 2004, are as follows:

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Fire Truck	\$ 30,357	\$ 31,349	\$ 32,374	\$ 33,434

The schedule of changes in long-term debt is as follows:

	<u>Enterprise Fund</u>	<u>Long-term Debt</u>
Bonds and loans April 1, 2003	\$ 25,000	\$ 156,909
Additions		
Retirements	<u>(25,000)</u>	<u>(27,395)</u>
Bonds and loans payable		
March 31, 2004	<u>\$</u>	<u>\$ 129,514</u>

Total interest expense for the Township for the year approximated \$6,400.

TOWNSHIP OF LAKE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 7: CASH ACCOUNTS

The Township of Lake uses a common banking account to pool cash funds and enhance investment earnings. The various funds equity at March 31, 2004, are as follows:

	<u>Common Checking</u>
General Fund	\$ 202,170
Capital Projects Fund	4,626
Trash Collection Fund	55,549
Fire Operating Fund	87,797
Street light fund	15,230
Cemetery Fund	1,393
Road	44,681
Ambulance	87,656
Fire Equipment Fund	<u>43,104</u>
TOTAL COMBINED CASH	<u>\$ 542,206</u>

Interfund borrowings are common and normally short term in nature. The investments are cashed if necessary to eliminate negative balances.

The Township's deposits are categorized to give an indication to the level of risk assumed by the Township at fiscal year-end. The categories are described as follows:

Category 1 – Insured or collateralized with securities held by the Township by its agent in the Township's name.

Category 2 – Collateralized with securities held by the pledging financial institution's trust department or agent in the Township's name.

Category 3 – Uncollateralized.

	<u>Bank Balance</u>	<u>1</u>	<u>Category 2</u>	<u>3</u>	<u>Carrying Amount</u>
Common Acct.	\$ 542,344	\$ 200,000	\$	\$ 342,344	\$ 542,206
Trust & Agency	954			954	929
Fire Raised	9,262	9,262			9,262
Sewer	<u>199,568</u>			<u>199,568</u>	<u>199,568</u>
	<u>\$ 752,128</u>	<u>\$ 209,262</u>	<u>\$</u>	<u>\$ 542,866</u>	<u>\$ 751,965</u>

**TOWNSHIP OF LAKE
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 8: INSURANCE COVERAGE

The Township is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. The Township participates in the Michigan Municipal Liability and Property Pool, a self-insured group. The pool is considered a public entity risk pool. The Township pays annual premiums to the pool for the respective insurance coverage. In the event a pool's total claims and expense for a policy year exceed the total normal annual premiums for said years, all members of the pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type of coverage of reinsurance. The Township has not been informed of any special assessments being required. There were no significant changes in coverage, nor were there any significant claims for the year. The Township carries commercial insurance for other types of losses including health and accident insurance.

NOTE 9: TOTAL (MEMORANDUM ONLY) COLUMN

The total column on the combined statements is captioned memorandum only to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 10: ENTERPRISE FUND

The Township has only one enterprise fund, the sewer fund. Consequently, combining financial statements and segment information are not presented.

NOTE 11: DUE TO/FROM OTHER FUNDS

Amounts due to and from other funds at March 31, 2004 are as follows:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General Fund	Fire Operating Fund	\$ 6,040
General Fund	Liquor Fund	198
General Fund	Cemetery Fund	156
General Fund	Trust and Agency Fund	929
		<u>\$ 7,323</u>

**TOWNSHIP OF LAKE
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 12: HOUGHTON LAKE AMBULANCE SERVICE

The Townships of Lake and Roscommon have made an agreement to provide ambulance service to their respective residents through the operation of a joint ambulance service. The service is governed by a separate board, consisting of four persons, which is represented by one Township board member and one resident from each township. The receipts for runs made in each Township shall be allocated to that Township and shall be used to pay that Township's share of the overhead costs. Any surplus monies shall be used to pay the costs of operation of that Township's ambulance unit and any monies left thereafter shall be property of that Township.

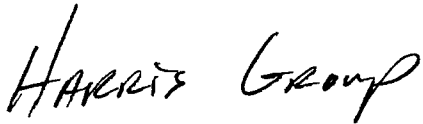
As of April 1, 2004, the Townships of Lake and Roscommon voted to allow the Ambulance Service to be organized as an Authority. The Ambulance Authority will operate independently of the Townships.

NOTE 13: ACCUMULATED RETAINED EARNINGS (DEFICIT) AND FUND DEFICIT

As of March 31, 2004, the Township has accumulated a retained earnings deficit in the sewer fund in the amount of \$129,499, and a deficit fund balance in the Liquor Fund of \$198.

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

Our report on our audit of the general purpose financial statements of the Township of Lake as of March 31, 2004 appears on page 1. That audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The additional information on pages 17 through 23 is presented for the purposes of additional analysis and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements taken as a whole.

A handwritten signature in cursive script that reads "Harris Group".

Certified Public Accountants
June 22, 2004

**TOWNSHIP OF LAKE
GENERAL FUND
STATEMENT OF REVENUES COMPARED TO BUDGET
YEAR ENDED MARCH 31, 2004**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues			
Current taxes	\$ 98,668	\$ 94,461	\$ (4,207)
Intergovernmental:			
State shared revenues	97,500	93,950	(3,550)
Swamp tax	1,350	2,699	1,349
Total Intergovernmental	98,850	96,649	(2,201)
Charges for services:			
Summer tax collection	15,500	5,500	(10,000)
Other	2,625	2,428	(197)
Total Charges for Services	18,125	7,928	(10,197)
Interest	6,000	3,120	(2,880)
Miscellaneous	2,500	2,239	(261)
OTHER FINANCING SOURCES:			
Transfer from Road fund		40,000	40,000
TOTAL REVENUE	<u>\$ 224,143</u>	<u>\$ 244,397</u>	<u>\$ 20,254</u>

**TOWNSHIP OF LAKE
GENERAL FUND
STATEMENT OF EXPENDITURES -
BUDGET TO ACTUAL
YEAR ENDED MARCH 31, 2004**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
GENERAL GOVERNMENT			
TOWNSHIP BOARD:			
Salaries	\$ 8,320	\$ 8,320	\$
Payroll taxes		5,336	(5,336)
Office supplies	347	327	20
Operating supplies	100	94	6
Mileage	491	491	
Contractual	8,891	9,481	(590)
Legal	3,042	3,042	
Audit	3,720	3,720	
Other professional fees	3,522	3,522	
Printing and publishing	2,502	2,502	
Retirement Insurance	12,000	209	11,791
Insurance	36,000	32,051	3,949
Miscellaneous	4,818	4,806	12
Street lights	17,916	17,916	
Total Township Board	<u>101,669</u>	<u>91,817</u>	<u>9,852</u>
SUPERVISOR:			
Salary – Supervisor	17,160	17,160	
Salary – Deputy	2,400	2,400	
Supplies	250	228	22
Mileage	303	336	(33)
Total Supervisor	<u>20,113</u>	<u>20,124</u>	<u>(11)</u>
ELECTIONS:			
Wages – Election	708	708	
Supplies and other	5,500	5,432	68
Total Elections	<u>6,208</u>	<u>6,140</u>	<u>68</u>
TREASURER:			
Salary – Treasurer	16,120	16,120	
Salary – Deputy	2,400	2,400	
Supplies	2,912	2,892	20
Mileage	287	310	(23)
Miscellaneous	75	75	
Equipment	513		513
Total Treasurer	<u>22,307</u>	<u>21,797</u>	<u>510</u>

**TOWNSHIP OF LAKE
GENERAL FUND
STATEMENT OF EXPENDITURES -
BUDGET TO ACTUAL
YEAR ENDED MARCH 31, 2004**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
SUMMER TAX COLLECTION:			
Wages	3,500	3,500	
Supplies and other	<u>300</u>	<u>250</u>	<u>50</u>
Total Summer Tax Collection	<u>3,800</u>	<u>3,750</u>	<u>50</u>
ASSESSOR:			
Office Supplies	1,705	1,705	
Contractual Wages	24,500	24,500	
Mileage	100	79	21
Miscellaneous	<u>64</u>		<u>64</u>
Total Assessor	<u>26,369</u>	<u>26,284</u>	<u>85</u>
BOARD OF REVIEW:			
Supplies and other	150	195	(45)
Mileage			
Contractual	<u>1,500</u>	<u>675</u>	<u>825</u>
Total Board of Review	<u>1,650</u>	<u>870</u>	<u>780</u>
CLERK:			
Salary - Clerk	16,640	16,640	
Salary - Deputy	2,400	2,400	
Supplies and other	2,671	2,676	(5)
Mileage	829	889	(60)
Telephone	<u>595</u>	<u>595</u>	
Total Clerk	<u>23,135</u>	<u>23,200</u>	<u>(65)</u>
TOWNSHIP HALL:			
Wages	2,100	2,100	
Contractual	1,133	1,133	
Operating supplies	379	304	75
Repairs and maintenance	7,251	7,251	
Mileage	76	80	(4)
Telephone	600	566	34
Heat	1,560	1,560	
Electricity	<u>500</u>	<u>396</u>	<u>104</u>
Total Township Hall	<u>13,599</u>	<u>13,390</u>	<u>209</u>

**TOWNSHIP OF LAKE
GENERAL FUND
STATEMENT OF EXPENDITURES AND OTHER
FINANCING USES - BUDGET TO ACTUAL
YEAR ENDED MARCH 31, 2004**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
ZONING:			
Supplies	600	223	377
Wages		471	(471)
Contractual	6,225	5,508	717
Mileage	150	76	74
Printing	500	102	398
Miscellaneous	150	91	59
	<u>7,625</u>	<u>6,471</u>	<u>1,154</u>
Total Zoning			
OTHER FINANCING USES:			
Transfer to Ambulance		25,000	(25,000)
Transfer to Cemetery		4,000	(4,000)
		<u>29,000</u>	<u>(29,000)</u>
Total Other Uses			
TOTAL EXPENDITURES AND OTHER USES	<u>\$ 226,475</u>	<u>\$ 242,843</u>	<u>\$ (16,368)</u>

**TOWNSHIP OF LAKE
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
MARCH 31, 2004**

	<u>Ambulance</u>	<u>Street Lighting</u>	<u>Fire Operating</u>	<u>Road</u>
ASSETS				
Cash	\$ 87,656	\$ 15,230	\$ 87,797	\$ 44,681
Delinquent taxes and assessments	<u>8,430</u>	<u>2,199</u>	<u>8,437</u>	<u>4,212</u>
TOTAL ASSETS	<u>\$ 96,086</u>	<u>\$ 17,429</u>	<u>\$ 96,234</u>	<u>\$ 48,893</u>
LIABILITIES AND FUND EQUITY				
Liabilities:				
Accounts payable	\$	\$	\$ 3,641	\$
Due to other funds	<u></u>	<u></u>	<u>6,040</u>	<u></u>
			<u>9,681</u>	<u></u>
Fund Balance	<u>96,086</u>	<u>17,429</u>	<u>86,553</u>	<u>48,893</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 96,086</u>	<u>\$ 17,429</u>	<u>\$ 96,234</u>	<u>\$ 48,893</u>

<u>Trash Collection</u>	<u>Liquor</u>	<u>Cemetery</u>	<u>Fire Equipment</u>	<u>Fire Raised</u>	<u>TOTAL (memorandum only)</u>
\$ 55,549	\$	\$ 1,393	\$ 43,104	\$ 9,262	\$ 344,672
6,200			4,339		33,817
<u>\$ 61,749</u>	<u>\$</u>	<u>\$ 1,393</u>	<u>\$ 47,443</u>	<u>\$ 9,262</u>	<u>\$ 378,489</u>
\$	\$	\$	\$	\$	\$
	198	156			3,641
					6,394
	198	156			10,035
61,749	(198)	1,237	47,443	9,262	368,454
<u>\$ 61,749</u>	<u>\$</u>	<u>\$ 1,393</u>	<u>\$ 47,443</u>	<u>\$ 9,262</u>	<u>\$ 378,489</u>

**TOWNSHIP OF LAKE
SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
MARCH 31, 2004**

	<u>Ambulance</u>	<u>Street Lighting</u>	<u>Fire Operating</u>	<u>Road</u>
REVENUES				
Taxes and assessments	\$ 90,512	\$ 23,509	\$ 90,460	\$ 45,274
State grants				
Charges for services				
Interest	466	30	740	103
Other			1,030	
	<u>90,978</u>	<u>23,539</u>	<u>92,230</u>	<u>45,377</u>
TOTAL REVENUES				
EXPENDITURES				
Operational maintenance	107,242			
Contractual			10,405	
Capital outlay				
Principal payment				
Interest			16,960	
Insurance			4,752	190
Operating supplies		6,110	5,101	
Electric			50,567	
Wages			1,295	
Payroll taxes				
Landfill charges			3,143	
Miscellaneous			2,335	
Mileage			13,878	
Repairs & maintenance			1,053	
Telephone			910	
Gasoline				
	<u>107,242</u>	<u>6,110</u>	<u>110,399</u>	<u>190</u>
TOTAL EXPENDITURES				
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(16,264)	17,429	(18,169)	45,187
OTHER FINANCING SOURCES (USES)				
Transfers In	25,000			(40,000)
Transfers (out)				
	<u>25,000</u>			<u>(40,000)</u>
TOTAL OTHER FINANCING SOURCES (USES)				
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES (USES) OVER EXPENDITURES	8,736	17,429	(18,169)	5,187
FUND BALANCE - beginning	<u>87,350</u>		<u>104,722</u>	<u>43,706</u>
FUND BALANCE - ending	<u>\$ 96,086</u>	<u>\$ 17,429</u>	<u>\$ 86,553</u>	<u>\$ 48,893</u>

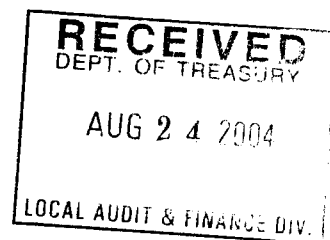
<u>Trash Collection</u>	<u>Liquor</u>	<u>Cemetery</u>	<u>Fire Equipment</u>	<u>Fire Raised</u>	<u>TOTAL (Memorandum Only)</u>
\$	\$	\$	\$	\$	\$
	2,103		46,639		296,394
77,950		170			2,103
331		11	496		78,120
				3,925	2,177
					4,955
<u>78,281</u>	<u>2,103</u>	<u>181</u>	<u>47,135</u>	<u>3,925</u>	<u>383,749</u>
					107,242
77,031		2,051			79,082
			6,827		17,232
			32,526		27,395
					5,131
					16,960
		20			4,962
		84			11,295
	2,103	900			53,570
		260			1,555
2,900					2,900
		14		1,562	4,719
		77			2,412
		10			13,888
					1,053
		107			1,017
<u>79,931</u>	<u>2,103</u>	<u>3,523</u>	<u>39,353</u>	<u>1,562</u>	<u>350,413</u>
(1,650)		(3,342)	7,782	2,363	33,336
		4,000			29,000
					(40,000)
		4,000			(11,000)
(1,650)		658	7,782	2,363	22,336
<u>63,399</u>	<u>(198)</u>	<u>579</u>	<u>39,661</u>	<u>6,899</u>	<u>346,118</u>
<u>\$ 61,749</u>	<u>\$ (198)</u>	<u>\$ 1,237</u>	<u>\$ 47,443</u>	<u>\$ 9,262</u>	<u>\$ 368,454</u>

TOWNSHIP OF LAKE
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL FIDUCIARY FUND TYPES
YEAR ENDED MARCH 31, 2004

	<u>Balance April 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance March 31</u>
ASSETS				
Cash	<u>\$ 1,862</u>	<u>\$ 2,965,160</u>	<u>\$ 2,966,093</u>	<u>\$ 929</u>
LIABILITIES				
Due to other funds	\$ 1,862	\$ 355,838	\$ 356,771	\$ 929
Due to other governments		2,603,239	2,603,239	
Due to individuals		6,083	6,083	
Total liabilities	<u>\$ 1,862</u>	<u>\$ 2,965,160</u>	<u>\$ 2,966,093</u>	<u>\$ 929</u>



Certified Public Accountants



June 22, 2004

To the Township Board
Lake Township

In planning and performing our audit of the financial statements of Lake Township for the year ended March 31, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to deficiencies in the design or operation of internal control that, in our judgment, could adversely affect Lake Township's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable conditions that we believe to be material weaknesses.

Budgeting

The Township is required per Public Act 621 of 1978, amendment of Public Act 2 of 1968, to budget the expenditures of each general and special revenue fund of the governments operations. The budget is allowed to be amended during the year for variances that occur. The Township expended more than the budgeted amount in most major expenditure categories for the special revenue funds during the year ended March 31, 2004. The Township did make an effort to amend the budget during the year, but needs to make more of an effort to comply with the Budgeting Act for all funds.

Expense Reimbursements

Last year we recommended the use of expenditure reimbursement forms. We were happy to see the Township act on our recommendation, but not all employees are using the expense reimbursement form. It needs to be Township policy that employees request expense reimbursements using the standard reimbursement form. The Board must not reimburse expenses without proper documentation.

Cemetery Fund

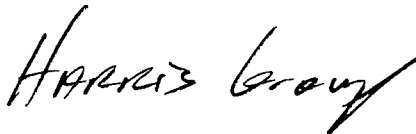
The Township currently maintains a cemetery fund as a special revenue fund. According to the Michigan Department of Treasury's Uniform Chart of Accounts, if the cemetery operations are funded with general fund revenue, the activity of the cemetery can be reported in the general fund. Lake Township generally will transfer general fund revenues to the cemetery fund to support its operations. If desired, the Township could close the cemetery fund and report the activity in the general fund under activity number 276.

We also noted the following reportable conditions that are not believed to be material weaknesses:

Payroll

During the audit, we noted that the payroll module was not properly posting the employer portion of social security and medicare taxes to the appropriate fund. Then the respective payments of social security and medicare taxes were being charged against the general fund. We have made journal entries to the March 31, 2004 financial statements to correct this problem for the current year. The Township needs to check the payroll module set up to make sure the default information is correct and fix this posting problem.

This report is intended solely for the information and use of the Township Board, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants